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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

PACESETTER INC. d/b/a ST. ) CV 11-3964 RSWL(FFMx)  
JUDE MEDICAL CRMD, a )  
Delaware Corporation )  
Plaintiff, ) ORDER re: Plaintiff's  
v. ) Motion for Summary  
Minnesota Corporation ) Judgment [8], and  
Defendant. ) Defendant's Cross-Motion  
for Partial Summary  
Judgment and Opposition  
to Plaintiff's Motion  
for Summary Judgment  
[20]  
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On June 28, 2011, Plaintiff Pacesetter Inc. d/b/a St. Jude Medical CRMD ("St. Jude") filed the present Motion for Summary Judgment [8]. On July 29, 2011, Defendant SurModics, Inc. ("SurModics") filed the present Cross-Motion for Partial Summary Judgment and Opposition to Plaintiff's Motion for Summary Judgment [26]. Both Motions were heard before the Court on October 5, 2011. After considering all of the papers and arguments submitted on these matters, **THE COURT NOW FINDS AND RULES AS FOLLOWS:**

1 The Court hereby **GRANTS** Plaintiff St. Jude's Motion  
2 for Summary Judgment. Furthermore, the Court **DENIES**  
3 Defendant SurModics's Cross-Motion for Partial Summary  
4 Judgment.

## I. BACKGROUND

6 St. Jude is a company that designs and manufactures  
7 medical devices such as implantable defibrillators,  
8 implantable pacemakers, and leads that connect these  
9 devices to the heart. SurModics is a biomedical  
10 company that creates new technologies that improve on  
11 the efficacy of medical devices. Relevant in this  
12 dispute, SurModics collaborated with St. Jude to  
13 develop various chemical coatings that are used on St.  
14 Jude's medical devices. SurModics patented these  
15 chemical coatings.

16 On December 6, 2002, St. Jude and SurModics entered  
17 into a Master License Agreement ["License Agreement"]  
18 that licensed the use of the patented coatings on St.  
19 Jude's products. In 2008, however, the patents on  
20 SurModics's chemical coatings expired, and St. Jude  
21 stopped paying royalties shortly after.

22 On May 20, 2009, SurModics did an audit of St.  
23 Jude's books to validate St. Jude's royalty payments  
24 paid over the course of the agreement. On March 23,  
25 2010, SurModics sent St. Jude an audit report that  
26 requested additional royalties of over \$3 million for  
27 products that had been manufactured during the License  
28 Agreement but sold after the expiration of SurModics's

1 patents.

2 **II. LEGAL STANDARD FOR SUMMARY JUDGMENT**

3 Summary judgment is appropriate when there is no  
4 genuine issue of material fact and the moving party is  
5 entitled to judgment as a matter of law. Fed. R. Civ.  
6 P. 56(a). A genuine issue is one in which the evidence  
7 is such that a reasonable fact-finder could return a  
8 verdict for the non-moving party. Anderson v. Liberty  
9 Lobby, 477 U.S. 242, 248 (1986).

10 A party seeking summary judgment always bears the  
11 initial burden of establishing the absence of a genuine  
12 issue of material fact. Celotex Corp. v. Catrett, 477  
13 U.S. 317, 322 (1986). "Where the moving party will  
14 have the burden of proof on an issue at trial, the  
15 movant must affirmatively demonstrate that no  
16 reasonable trier of fact could find other than for the  
17 moving party." Soremekun v. Thrifty Payless, Inc., 509  
18 F.3d 978, 984 (2007).

19 Once the moving party makes this showing, the  
20 non-moving party must set forth facts showing that a  
21 genuine issue of disputed fact remains. Celotex, 477  
22 U.S. at 322. The non-moving party is required by  
23 Federal Rules of Civil Procedure Rule 56(e)<sup>1</sup> to go  
24 beyond the pleadings and designate specific facts

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26 <sup>1</sup> The Federal Rules of Civil Procedure were amended  
27 on December 01, 2010. Federal Rule of Civil Procedure  
28 56(e) has now been codified as Federal Rule of Civil  
Procedure 56(c).

1 showing a genuine issue for trial exists. Id. at 324.

2 **III. ANALYSIS**

3 This Court finds that Plaintiff St. Jude has met  
4 its burden for Summary Judgment by making a persuasive  
5 showing that the language of the License Agreement does  
6 not obligate St. Jude to pay royalties to SurModics for  
7 Licensed Products manufactured before but sold after  
8 the expiration of SurModics patent. As such, this  
9 Court **GRANTS** Plaintiff St. Jude's Motion for Summary  
10 Judgment and **DENIES** Defendant SurModics's concurrent  
11 Cross-Motion.

12 As a threshold issue, both Parties agree that the  
13 contract includes an express choice of law provision  
14 indicating that Minnesota law governs any dispute.  
15 Given that patent license agreement are governed by  
16 ordinary principles of state contract law, this Court  
17 follows the choice of law provisions indicated by the  
18 license agreement and interpret the contract based on  
19 Minnesota law. Power Lift, Inc. v. Weatherford Nipple-  
20 up Systems, Inc., 871 F.2d 1082, 1085 (Fed. Cir. 1989).

21 According to Minnesota Law, the Court finds that  
22 the License Agreement is unambiguous. City of Virginia  
23 v. Northland Office Props Ltd. P'ship, 465 N.W.2d 424,  
24 427 (Minn. Ct. App. 1991)(whether a contract is  
25 ambiguous is a question of law). Not only do both  
26 parties agree that the language of the License  
27 Agreement is unambiguous, but the Court finds that the  
28 language of the royalty provision unambiguously

1 provides that St. Jude will pay royalties only on Net  
2 Sales of Licensed Products during the term of the  
3 agreement.

4 As will be discussed further below, the meaning of  
5 this provision is unambiguous when read in the context  
6 of the contract as a whole. Art Goebel, Inc. v. North  
7 Suburban Agencies, Inc., 567 N.W.2d 511, 515 (Minn.  
8 1997) (determining whether a contract is ambiguous  
9 "depends, not upon words or phrases read in isolation,  
10 but rather upon the meaning assigned to the words or  
11 phrases in accordance with the apparent purpose of the  
12 contract as a whole"). Though it is true that both  
13 parties interpret the License Agreement differently,  
14 the mere fact that there is a disagreement "on the  
15 interpretation of contract language is not  
16 determinative that the contract language is ambiguous."  
17 Bank Midwest, Minn., Iowa, N.A. v. Lipetzky, 674 N.W.2d  
18 176, 179 (Minn. 2004).

19 Given that the language of the License Agreement is  
20 unambiguous, this Court interprets the language of the  
21 contract without examining extrinsic evidence such as  
22 the course of performance of the parties.<sup>2</sup> See Hous &  
23 Redev. Auth. v. Norman, 696 N.W.2D 329, 337 (Minn.  
24 2005) ("Under a contract analysis, we first look to the  
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26 <sup>2</sup> Because the parties agree that the License  
27 Agreement is unambiguous, both parties only argue  
28 extrinsic evidence as alternative arguments relevant in  
the unlikely event the Court found that the language of  
the License Agreement is ambiguous.

1 language of the contract and examine extrinsic evidence  
2 of intent only if the contract is ambiguous on its  
3 face."); City of Virginia, 465 N.W.2d at 427 (Minn. Ct.  
4 App. 1991)(holding that a court can interpret an  
5 unambiguous contract as a matter of law). Accordingly,  
6 the following analysis is a plain language  
7 interpretation of St. Jude's obligation for royalties  
8 under the contract.

9 The disputed royalty provision provides in relevant  
10 part that "[f]or each license granted herein, [St.  
11 Jude] shall pay to SurModics a royalty for each quarter  
12 of each calendar year during the term of this  
13 Agreement." Cruz Decl. ¶3, Ex. A at ¶5. Moreover,  
14 "[e]arned royalties shall be calculated as provided for  
15 in Attachments B1 and B2" of the License Agreement,  
16 which only obligate St. Jude to pay royalties on "Net  
17 Sales" of "Licensed Products." In other words, the  
18 parties' License Agreement requires St. Jude to pay  
19 SurModics a royalty on the Net Sales of Licensed  
20 Product for each quarter of each calendar year during  
21 the term of the agreement. Thus, breaking the royalty  
22 provision down in parts, in order to understand this  
23 provision and apply it to the context of the dispute,  
24 the Court interprets the definition of: (1) Licensed  
25 Product, (2) Net Sales, and (3) "during the term" of  
26 the agreement.

27 Paragraph 1.d.i of the License Agreement defines  
28 royalty bearing "Licensed Products" as: "each of the

1 separately sold Medical Products . . . which . . . but  
2 for the license granted herein, the manufacture, use or  
3 sale would infringe . . . Patent Rights." According to  
4 patent law, "whoever without authority *makes, uses,*  
5 *offers to sell, or sells any patent invention within*  
6 *the United States . . . during the term of the patent*  
7 *therefore, infringes the patent." 35 U.S.C. §*  
8 271(a)(emphasis added). Thus, when the language of  
9 Paragraph 1(d)(i) is read in the context of patent law,  
10 any product based on SurModics's patents that St. Jude  
11 manufactured during the term of SurModics's patents is  
12 a "Licensed Product." St. Jude argues that the  
13 products at issue are not "Licensed Products" because  
14 they were sold after the patent expired. However, the  
15 Court finds this argument without merit as the products  
16 at issue were undisputedly *manufactured* while  
17 SurModics's patents was still valid and hence, fall  
18 squarely within the definition provided in Paragraph  
19 1(d)(i).

20 The next step in understanding this agreement is  
21 determining when St. Jude is obligated to pay royalties  
22 for Licensed Products. Attachments B1 and B2 of the  
23 License Agreement is unambiguous in only requiring St.  
24 Jude to pay "Earned Royalties on Net Sales of . . .  
25 Licensed Products." In other words, St. Jude's primary  
26 obligation for royalties are those that are calculated  
27 from the "Net Sales." These "Net Sales" are "the total  
28 actual billing for sales of Licensed Products." Cruz

1 Decl. ¶3, Ex. A at ¶1(h). Looking at this definition  
2 together with the language in Attachments B1 and B2,  
3 the Court finds that royalties are not owed on Licensed  
4 Products simply because they have been manufactured by  
5 St. Jude, rather the plain language is explicit in only  
6 obligating St. Jude to pay royalties for products that  
7 are actually sold.

8 Furthermore, royalties calculated from the Net  
9 Sales of Licensed Products are only required to be paid  
10 by St. Jude to SurModics "during the term of this  
11 Agreement." Cruz Decl. ¶3, Ex. A at ¶5. The Court  
12 finds that the language of the License Agreement is  
13 clear and unambiguous in defining the "term of the  
14 agreement" as ending as soon as SurModics's patents  
15 expires. More specifically, Paragraph 8(a) of the  
16 license agreement which defines the word "term," states  
17 that "[u]nless terminated earlier, each license herein  
18 granted . . . shall extend for each Licensed Product so  
19 licensed until expiration of the last-to-expire Patent  
20 Rights that covers that product." Cruz Decl. ¶3, Ex. A  
21 at 8(a). The Court finds that the language in this  
22 paragraph is clear in limiting the term of the license  
23 and the royalty obligations to the expiration of  
24 SurModics's patents.

25 Moreover, Paragraph 25 of the License Agreement  
26 corroborates that Paragraph 8(a) is controlling for the  
27 definition of the word "term." In Paragraph 25, the  
28 License Agreement specifies that SurModics's obligation

1 to supply patented chemicals to St. Jude ends "after  
2 the expiration of the Agreement upon completion of the  
3 *full term thereof (as set forth in Paragraph 8(a)).*"  
4 Cruz Decl. ¶3, Ex. A at ¶25 (emphasis added). This  
5 reference in Paragraph 25 to Paragraph 8(a) confirms  
6 that the language of Paragraph 8(a) defines the "term"  
7 of the License Agreement as ending when SurModics's  
8 patents expires. Therefore, given that royalties are  
9 expressly limited in Paragraph 5 to payment during the  
10 "term of this Agreement," when read together with  
11 Paragraph 8 and 25, this Court finds that it is plain  
12 and unambiguous that St. Jude's obligation to pay  
13 royalties ended with the expiration of SurModics's  
14 patents.

15 SurModics argues that two other provisions in the  
16 License Agreement, Paragraphs 8(b) and 11 allow for a  
17 different interpretation of the word "term." The Court  
18 finds this argument without merit. Paragraph 8(b) only  
19 provides that upon the expiration of SurModics's  
20 patents and full payment by St. Jude "of any monies due  
21 under this Agreement as well as all royalties accrued  
22 under [related agreement not at issue], the license  
23 with respect to [patented trade secrets] licensed  
24 herein for that Licensed Product shall be deemed a  
25 fully paid up and non-exclusive license for that  
26 Licensed Product." Cruz Decl. ¶3, Ex. A at ¶8(b).

27 The Court finds that when this paragraph is read in  
28 the context of the rest of the agreement (i.e.

1 Paragraphs 8(a), 5, and 25), Paragraph 8(b) is only  
2 stating that St. Jude has a continued obligation to pay  
3 any royalties that had already been accrued during the  
4 Term of the Agreement (Licensed Products that were sold  
5 during the Term of the Agreement). The Court finds  
6 that contrary to Defendant's proffered interpretation,  
7 Paragraph 8(b) does not create any new obligations for  
8 any license after SurModics's patents expired.

9       Similarly, Paragraph 11 only provides that after  
10 the termination of the License Agreement, SurModics  
11 would still have the "right to receive . . . royalties  
12 to the extent owed." From its plain language,  
13 Paragraph 11 also does not create any new obligations  
14 for royalties after the termination of the agreement.  
15 As such, the Court finds that the language of  
16 Paragraphs 8(b) and 11 is consistent with an  
17 interpretation that St. Jude's obligations to pay new  
18 royalties ended with the expiration of SurModics's  
19 patents.

20       Furthermore, such an interpretation of the Licensed  
21 Agreement is consistent with case law. Under patent  
22 law, once a patent expires, it is "in the public domain  
23 and may be made and sold by whoever chooses to do so."  
24 Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231  
25 (1964). Accordingly, case authority dealing with  
26 license agreements pertaining to products manufactured  
27 before but sold after the expiration of a patent have  
28 held that royalties are only warranted when language in

1 license agreements explicitly obligates the licensee to  
2 pay for royalties after the patent's expiration. See  
3 AM Int'l, Inc. v. Graphic Mgmt. Assoc., 44 F.3d 572,  
4 574 (7th Cir. 1995)(Posner, J.). In AM Int'l, a  
5 license agreement only provided for these type of  
6 royalties when the licensed product was ordered by  
7 customers **six months** before the expiration of the  
8 patent and shipped within five months of the patent's  
9 expiration. Id. The AM Int'l court, however, found  
10 that a licensor was not entitled to royalties for  
11 products that were ordered **seven months** before the  
12 expiration of the patent but shipped within five months  
13 of the patent's expiration. Id. This is because "if  
14 the parties. . . had wanted [the patent holder] to  
15 obtain royalties on all machines shipped before  
16 December 31 . . . they could have said so in just those  
17 words." Id. at 576.

18 Similarly, the language of the provision in this  
19 case does not contain any language that explicitly  
20 obligates St. Jude to pay royalties for products that  
21 were manufactured before but sold after the expiration  
22 of the patent. SurModics argues that the absence of  
23 such language should instead signal to the Court that  
24 royalties are obligated for these products. However,  
25 this Court is in accord with the reasoning in AM Int'l  
26 and finds that a licensee is only obligated to pay  
27 royalties for these products if the license agreement  
28 expressly requires.

As such, this Court finds that the License Agreement does not obligate St. Jude to pay royalties for products sold after the expiration of SurModics's patents. Therefore, the Court finds that Plaintiff is entitled to summary judgment.

#### IV. CONCLUSION

For the reasons stated above, the Court **GRANTS** Plaintiff's Motion for Summary Judgment. Therefore, the Court **DENIES** Defendant SurModics's Cross-Motion for Partial Summary Judgment.

DATED: October 25, 2011

**IT IS SO ORDERED.**

RONALD S.W. LEW

**HONORABLE RONALD S.W. LEWIS**

Senior, U.S. District Court Judge